Supplier Training - Module 4:

Strong management systems

cfsi

CFSI, the Conflict-Free Sourcing Initiative, is one of the most utilized and respected resources for companies from a range of industries addressing conflict minerals issues in their supply chains.

RCS Global is a world-leading audit and advisory firm specializing in responsible supply chains. RCS Global is working with CFSI to develop innovative and practical responses to the responsible sourcing of raw materials.

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More information

To purchase the training toolkit accompanying this presentation or to request an in-person training for your suppliers and / or conflict minerals team, please visit:

www.rcsglobal.com

or contact RCS Global at:

info@rcsglobal.com

Let CFSI or RCS Global know if you are interested in working with other companies to offer joint in-person trainings to suppliers.

In this module you will learn how to

- Adopt robust management systems

- Communicate with external stakeholders

- Create, implement, and communicate a strong conflict minerals policy

Why implement robust management systems?

- Makes responding to customers easier and efficient

- Facilitates preparedness for expanding list of risks

- Facilitates preparedness for expanding regulation and guidelines

- It is considered best practice to implement the OECD 5-step process: Management Systems correspond to Step 1 of the OECD Guidance.

Conflict Minerals reporting is an annual requirement and you will be requested by your customers to update your information every year. Robust Management Systems help you plan each year for this requirement.

OECD Guidance Step 1: internal elements

Conflict Minerals Policy	Adopt and implement a Conflict Minerals Policy.
	Communicate to all suppliers.
	Upload to your company website.
Internal Accountability	One person from senior management to be responsible.
	Regular progress reports from project team to senior management.
	Include members from all relevant departments in project teams (e.g. design, procurement, engineers).
	Utilize necessary IT system to facilitate the process.
Internal Communication	Communicate the Policy to all relevant employees.
	Train relevant employees on the tasks they will carry out.

OECD Guidance Step 1: external elements

External Communication	Communicate sourcing requirements to all suppliers – Policy only has meaning when it is communicated and suppliers are held accountable.
	Include sourcing requirements in supplier agreements, Codes of Conducts, POs or other contracts.
Supplier Engagement	Regularly talk with suppliers on supply chain surveying, risk management and due diligence.
	Where possible, help suppliers with resources or training.
Grievance Mechanism	Provide a conflictfree@ email address on your website and / or in your Policy.
	Ensure any message received on this address reaches the conflict minerals team.

Tips for external communication

- Use **consistent language** across all documents:
  - Policy, contracts, emails

- Consider making it a call to **action**:
  - Use proactive phrases like "purchase only from compliant smelters"
  - Avoid inactive phrases like "this smelter is non-compliant"

- **Explain** your action:
  - What exactly do you need
  - Why do you need this information
  - By when do you need the information

- Provide **resources:**
  - Include links to useful websites
  - Explain what steps suppliers can take next

Implementation of the OECD Guidance: where to start?

Develop a Strong Conflict Minerals Policy. A good Policy:

- Is publicly available (easily accessible)

- Covers tantalum, tin, tungsten and gold

- States that it will be communicated to suppliers / sub-contractors

- Commits to exercise due diligence in accordance with the OECD Guidance

- Explicitly states that the suppliers' mineral will not directly or indirectly finance or benefit armed groups that are perpetrators of serious human rights abuse

- Ensures conflict-free minerals from the DRC and neighboring countries are not banned.

Example of a Good Policy

Columbite-tantalite (coltan), cassiterite, wolframite and gold, or their derivatives, including tantalum, tin, and tungsten, originating from the Democratic Republic of the Congo (DRC) and adjoining countries sometimes directly or indirectly benefit or fund armed groups that are perpetrators of serious human rights abuse. Some of these minerals and/or derivatives can make their way into the supply chains of the products used around the world. It is the policy of [company name] to avoid [conflict mineral(s)] that directly or indirectly finance or benefit armed groups from conflict-affected regions.

As part of [company name]'s commitment to corporate responsibility and respecting human rights in our own operations and in our global supply chain, it is our [company name]'s goal to seek to only procure raw materials containing [conflict mineral(s)] that do not support conflict.

In support of this sourcing policy, [Company Name] will
- Exercise due diligence with relevant suppliers consistent with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and encourage our suppliers to do likewise with their suppliers
- Provide, and expect our suppliers to cooperate in providing, due diligence information to confirm the [conflict mineral(s)] in our supply-chain does not support conflict.
- Immediately discontinue engagement with suppliers who pose a reasonable risk to be supporting conflict.
- Commit to transparency in the implementation of this policy by making available reports on our progress to our customers, relevant stakeholders and the public (as required).

Policy established: [date]

Other smelter/refiner policies available via the CFSI program website at
www.conflictfreesmelter.org/cfshome.htm

How to integrate the policy into company processes?

- Policy is referenced in the company's standard operating procedure relating to the procurement of conflict mineral(s)

- Policy is owned by a company manager ("policy owner") responsible for the implementation within the company

- Employees who procure conflict mineral(s) have been trained to the policy and relevant standard operating procedure

- Company documents which employee(s) have received the training and when each employee was trained

How to communicate the Policy?

- Publicly communicate policy
  - Post on the company website
  - Include within Corporate Responsibility Report (CSR) or other official public company communications
  - Posted to an industry association website like CFSI

- Share policy with suppliers providing relevant materials that contain conflict minerals
  - Embed requirements within Supplier Code of Conduct and and/or supplier contractual terms
  - Company documents which supplier(s) have received the Conflict Minerals policy

Glossary & additional resources

The Conflict-Free Sourcing Initiative
www.conflictfreesourcing.org | @EICCoalition | @GeSIConnect
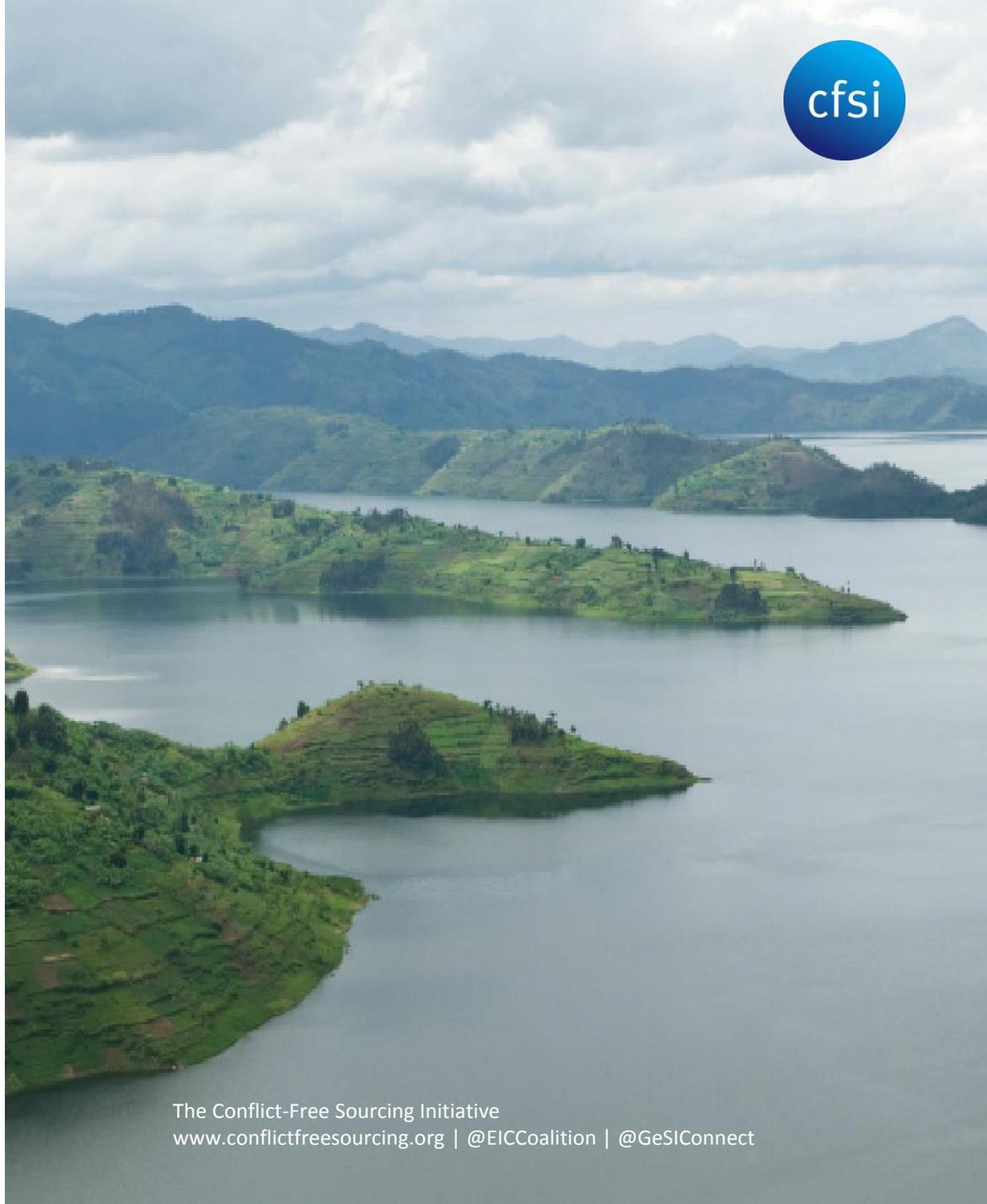
The OECD 5-Step Process: overview

Step 1: Establish Strong Management Systems

Step 2: Identify and Assess Risks in the Supply Chain

Step 3: Design and Implement a Strategy to Respond to Identified Risks

Step 4: Carry Out Independent Third-Party Audit of Smelter's Due Diligence Practices

Step 5: Report Annually on Supply Chain Due Diligence

OECD Guidelines: deep dive

- **Step 1: Establish Strong Management Systems**
  - Adopt and communicate to suppliers and the public a Conflict Minerals Policy
  - Structure internal management to support supply chain due diligence
  - Establish a system of controls and transparency over the supply chain
  - Strengthen engagement with suppliers
  - Establish a grievance mechanism

- **Step 2: Identify and Assess Risks in the Supply Chain**
  - Identify risks in the supply chain
  - Assess risks in light of the conflict minerals policy

OECD Guidelines: deep dive (continued)

- **Step 3: Design and Implement a Strategy to Respond to Identified Risks**
  - Report findings of the supply chain risk assessment to a designated senior management
  - Devise and adopt a risk management plan
    - Continue trade with measurable risk mitigation efforts
    - Temporarily suspend trade while pursuing ongoing measurable risk mitigation
    - Disengage with a supplier after failed attempts at mitigation when risk mitigation is deemed not feasible or unacceptable
  - Implement the risk mitigation plan, monitor and track performance of risk mitigation efforts and report back to designated senior management
  - Undertake additional fact and risk assessments for risks requiring mitigation

OECD Guidelines: deep dive (continued)

- **Step 4: Carry Out Independent Third-Party Audit of Refiner's Due Diligence Practices**
  - Smelters and refiners should undergo an independent third party audit of their due diligence practices, such as through the CFSP, LBMA, or RJC

- **Step 5: Report Annually on Supply Chain Due Diligence**
  - Companies should publically report on their supply chain due diligence policies and practices through independent reports, corporate social responsibility reports, or annual reports

⚠️ Steps 4 and 5 are not discussed in these modules. While some companies are **required** by the SEC to implement these steps, others are merely encouraged.

Glossary of commonly used terms (A-Z)

CFSI

Conflict-Free Sourcing Initiative
http://www.conflictfreesourcing.org/

Conflict-Free Smelter Program (CFSP)

A program developed by the CFSI to enhance company capability to verify the responsible sourcing of metals.
http://www.conflictfreesourcing.org/conflict-free-smelter-program/

Conflict Mineral

(As defined in 2010 United States legislation, Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 1502(e)(4))

The term ''conflict mineral'' means—
(A) columbite-tantalite (coltan), cassiterite, gold, wolframite, or their derivatives; or
(B) any other mineral or its derivatives determined by the Secretary of State to be financing conflict in the Democratic Republic of the Congo or an adjoining country
www.sec.gov/about/laws/wallstreetreform-cpa.pdf)

Glossary of commonly used terms (A-Z) (continued)

Conflict Minerals Reporting Template (CMRT)
Formerly known as the EICC-GeSI Template, this excel based file is the common reporting tool for suppliers to survey their supply base for smelter information. The data format is also noted in the IPC-1755 Conflict Minerals Data Exchange standard.

Customer
A downstream company requesting the CMRT and / or other cooperation to meet reporting requirements and other due diligence activities.

Due Diligence
An on-going, proactive and reactive process through which companies can ensure that they respect human rights and do not contribute to conflict

LBMA
London Bullion Market Association, www.lbma.org.uk

Glossary of commonly used terms (A-Z) (continued)

OECD   Organization for Economic Co-operation and Development, www.oecd.org

OECD Guidance   OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas

RJC   Responsible Jewellery Councill, www.responsiblejewellery.com

Supplier   An company contacted by downstream companies to assist in meeting reporting requirements and other due diligence activities**.**

TI-CMC   Tungsten Industry Conflict Minerals Council, www.ti-cmc.org

Validated Smelter A smelter that has been independently validated as conflict-free by the CFSP, LBMA or RJC.

ADDITIONAL RESOURCES

- To be added later…

THANK YOU!

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